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Anheuser-Busch Employees' CREDIT UNION™

March 4, 2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
regcomments@ncua.gov

Re: Anheuser-Busch Employees' Credit Union Comments on Part 704 Corporate Credit Unions

General Comments:

Rule setting in the rear view mirror

It is a natural tendency to replace the locks after a break-in. But we urge caution in reacting in that fashion over the truly epic economic event we are all suffering through. We firmly believe that you can not build a wall or buy enough locks as a substitute for proper controls. Much has been written about the nation's brightest minds not seeing the housing crisis in the making. The loan underwriting by non-regulated brokers and quick packaging for securitization by big market players were the primary cause of the credit problem at Corporate Credit Unions (CCUs). Unlike a very big CU that responded supportively to your objective of assuring "it never happens again", we do not believe that is possible or appropriate. It should never happen again, but we believe strongly that the impact on natural person credit unions (NPCUs) this time would not have been nearly what it is if prudent policies and oversight had occurred within the rules that were in place.

Even though the private label guaranteed mortgages were poorly underwritten, CCUs would not have taken the fall if they had a reasonable concentration of them in their investment portfolios. Should we expect you to write a rule to disallow mortgage investing because of that flaw? We do not think so. What we expect is for the "new process" to require better skills at CCUs and at their regulator. Put better alarms in place so the next break-in doesn't find all of the eggs in one basket.

CCU consolidation

In Town Hall meetings over the last several months, the NCUA's position has been reported to be neutral on CCU consolidation, explaining that is up to market forces and what is in the best interests of NPCUs and their members. Consolidation might not be a goal, but we believe it is impossible for CCUs to take on the new 704 rule without consolidation. A number of CUs responding to this proposed rule believe competition and the fear of consolidation were a significant cause of the current problem. We do not share that opinion, as stated above; we believe improper controls in investing was the problem. We do believe that consolidation was eminent before and will accelerate now. That is appropriate as long as the "new 704" is not so confining that it creates massive failures because no CCU can survive.

Legacy assets
The issue of how to work out of the troubled CCU legacy assets is very significant to the future of CCUs and NPCUs alike, but is not addressed in the proposal. Like others that have included this in their comments, our CU would be very reluctant to reinvest more member capital to recapitalize any CCU until the threat of more OTTI losses can be set aside. This issue will also, in our opinion, prevent meaningful CCU consolidation.

We believe Treasury should hold these troubled assets. Too much trepidation occurred at the NCUA about firmly approaching Treasury as the CCU problem was unfolding. It is not too late to get these assets where they can best be dealt with while some returned "TARP money" is still available. The NCUSIF was never intended to sustain the type of systemic losses that it has been subjected to in the CCU failures.

Governance
We recommend that the CCU's Board of Directors include at least one capital markets expert from outside the credit union industry. We believe this outside, third party viewpoint is crucial and, if necessary, may need to be a paid position.

Specific Comments:

704.3 Corporate Credit Union Capital
This is truly a dilemma. We agree that CCUs need to achieve appropriate/adequate capital levels in a reasonable timeframe. However, achieving "Adequate Capital" levels of a 4% leverage ratio, 4% Tier -1 risk based ratio, and an 8% total risk based capital by the end of the first year of the new 704 rule is, of course, not possible. That will mean that virtually all CCUs will be operating under PCA's! A CCU balance sheet manager, with the existing investments and liabilities, could not divest/downsize quickly enough to meet this requirement in one year. Whatever the new regulation becomes, the first two- three years must be recognized as transition years.

704.5 Investments
The problem of attaining the required capital ratios is long term. To prove the point of this problem, one only needs to examine the "sample investment portfolio" included in the proposal. 50% of the portfolio is in student loans and asset backed auto loans! Do you have any idea what you would do to us if you found that amount of concentration in a NPCU! Unbelievable. We are aware that, in the recent Orlando town hall meeting, one of your key staffers stated that outside consultants believe the model spread can be achieved. Saying that does not make it true. We are convinced that a CCU could only achieve the required spreads by taking on more risk than was true of their 2007 balance sheets. They would be forced to find a new "home run" investment and bet the "bank": yes, maybe 30% student loans and 20% auto backed securities.

704.8(h) Weighted average life
The two year weighted average investment portfolio life requirement is too restrictive. CCUs should be allowed to go out at least five years on the curve to achieve the necessary earnings. CCU problems were not due to Asset/Liability management. Those with self managed portfolios have strong skills in ALM management and that should be a continuing requirement. Those CCUs that passed on their balance sheet risk to US Central will need particular attention to assure they develop strong ALM models and highly skilled staff if they carry investments directly.

704.6 Credit Risk Management
The revisions should primarily focus in the credit area. The CCU system failure, we believe, was due to poor credit analysis and over concentration of investments in non-agency mortgages. Strong talent in credit analysis should be required at each CCU. Regular analysis and public reporting of performance and underlying collateral should be required.

704.8 (f) Cash flow mismatch with 50% slowdown in prepayment speeds
The proposal requires CCUs to evaluate the impact on NEV of an instantaneous spread widening by 300 basis points assuming that prepayment speeds will slow by 50%. Since the + 100 to +300 shocks already assume prepayment speed slowdown, the purpose of this test must be to cover any prepayment modeling error. Therefore, we believe the 50% limit includes some double accounting and that a 20% slowdown assumption would be more appropriate for this purpose.

Conclusion:
CCUs provide very valuable services to NPCUs at costs much lower than commercial banks. This proposal will drive up CCU costs and, consequently, pricing so high that other market alternatives will be cheaper for larger NPCUs. The 6,400 credit unions below $100 million in assets will find it very difficult to operate.

We question the need to go so far in modifying CCU regulation 704. The existing regulations are sufficient. Supervision should be improved. If changes are to be undertaken, we believe those discussed above are very detrimental and need rethinking. Specific problems include: placing all CCUs in violation of capital requirements from day one, unrealistic expectation of investment net income, two year weighted average life of investments, more emphasis needed in investment credit review, and the assumption used for stressed prepayment speeds.

More attention should be given to legacy asset disposition, CCU consolidation, and attracting highly qualified board members from outside the credit union industry.

Sincerely,

J. David Osborn, CEO